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Correspondent of The National City Bank of New York.

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THE NATIONAL CITY BANK OF NEW YORK

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# Economic Conditions
# Governmental Finance
# United States Securities

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## General Business Conditions.

GENERAL business is moving along in a reasonably satisfactory manner. Everybody is not pleased, but the fundamental conditions are good. A month ago we could report that a good crop of the small grains had been harvested, but the greatest grain crop that of corn, had not matured and owing to its late start was in danger of frost. The most notable development of the past month has been the maturing of this crop, now estimated at about 3,150,000,000 bushels. It means much to the country, although the farmer's feeling of gratification is naturally tempered by the fact that the price of corn, which at the middle of June was about $1.80 per bushel, has fallen for December delivery to below $1.00 per bushel. It is the first time since February of 1917 that corn in Chicago has sold under $1.00 per bushel. The high point was $2.36 in August 1917. The decline has been due to the falling off in the exports of meats and to the big crop now in sight. It is calculated to make the farmer feel that he has contributed to his own undoing. It is not strange that he reads with some feeling of resentment of the various efforts to sustain prices and curtail production in other lines, of textile mills running part time and labor organizations resolving in favor of a six-hour way. Obviously he is not getting fair and reciprocal service from the other industries with which he is exchanging products, but the true remedy is not in reducing the production of foodstuffs but in increasing the production of other things, so that the prices of what the farmer buys will decline likewise.

### Wheat Crop and Exports.

The wheat crop is considerably under the expectations of two months ago. The winter crop west of the Mississippi river was excellent in amount and quality, but the acreage and yield was reduced in states east of the river, and the crop of spring planting in the northwest was below the early promise. The government's estimate for the total yield is now 770,000,000 bushels. The Canadian crop, however, government estimate, is 289,500,000 bushels, which is 96,000,000 above last year, being an average of 16½ bushels per acre, against 9½ last year, and the quality is fine. Including the carry-over, the amount available for export in the United States and Canada is about the same as last year. The foreign trade has been buying freely. Although the crop in this country is being marketed slowly, Bradstreets reports 122,489,000 bushels, including the equivalent of flour, exported in the twelve weeks ended September 23, against 81,783,000 in the same weeks of last year. These figures include old wheat, but we have exported fully one-half of all we can spare in the year to July 1, 1921.

The price of wheat now turns on the crop in the countries of the southern hemisphere and India. Europe imported nearly 600,000,000 bushels last year and will require nearly as much in the year to come. The United States and Canada can supply about 400,000,000 bushels, possibly a little more. The Argentine and Australian crops are progressing well to date, but both countries are subject to droughts and if either should go wrong it would send prices up. The price has had a heavy decline in the last week and closed the month at about the lowest figures of the year.

The situation in the wheat and flour markets has been abnormal, in that prices for wheat for future delivery have been 25 to 45 cents per bushel below spot delivery. December is below spot and October and March are below December, which on the surface would seem to indicate that the longer wheat is held the less it will be worth. Under ordinary conditions wheat would be rushed to market and bring the cash delivery below the futures, but the car situation and unwillingness of farmers to take lower prices have kept the movement down to no more than the current demand would absorb.

### The Market for Flour.

No one has wanted to buy wheat except for immediate export or consumption. While we have seen dealers in woolen and cotton goods and shoes unwilling to lay in stocks, and factories unwilling to make up goods, because they feared a price decline, a similar situation has existed in wheat and flour. Elevator companies have been unable to buy wheat from farmers and make hedge sales at a margin to cover

carrying charges and profits; millers have been unable to sell flour for future delivery and have been grinding only to fill orders; flour dealers have bought flour only for day to day distribution. The principal milling centers have reported operations at only about one-half capacity, and the primary wheat markets have little more grain than at the beginning of the season. This is one reason why the demand for credit for crop-moving purposes has been comparatively small to date. The situation furnishes another illustration of the universal rule that nobody will knowingly make up or buy goods to carry as stock in the face of a falling market. No amount of talk about the iniquity of curtailing production will alter anybody's policy in this respect.

Another anomaly in the situation is the fact that wheat is quoted in Canadian markets above current prices on this side of the line, and at the same time Canadian wheat and flour are both moving this way. Thus Winnipeg is above Minneapolis while normally the reverse is true. This is due in part, probably, to the premium on the United States' dollar in Canada. The shipper of either wheat or flour to this country can sell his draft in Canada at a premium of about ten per cent, which yields about the same result as though there was a bounty on exports to the United States. Another reason for the higher Winnipeg price is that Canadian No. 1 Northern is of very fine grade this year, containing more gluten than our own wheat of the same nominal grade, and American millers are buying it, to mix with the native wheat.

**The Cotton Situation.**

The cotton crop has lost ground during the last month, from too much rain, and the outlook now is for not much over 12,000,000 bales. Domestic consumption and exports for the last crop year aggregated 13,623,692 bales. The carry-over August 1, 1920, in consuming establishments and public storage was 3,412,989 bales. This year's crop had a bad start and about June 1st the promise was thought to be for not over 10,000,000 bales, but it improved in June and July until estimates of 13,000,000 bales were common. On the strength of this change and because of diminished consumption by the mills of this country and Europe, and dull trade in all textile markets, the price has declined from above 40 cents per pound spot to about 25 cents, with December delivery 2 cents lower. Deliveries in later months are still lower, showing the same phenomenon as the wheat market, and indicating a lack of faith in future developments.

**Market Influences.**

As usual when cotton declines much is said in the South about the vicious influence of short-selling, but the talk among people who are familiar with the market is that the selling orders are mainly from the South, and probably represent hedging operations, that is, sales against new crop purchases. But whether they are hedge-sales or short-sales the trouble with the market is a lack of buying orders. Instead of furnishing proof of the evil of speculation it shows the necessity for speculation. The demand for immediate consumption is very slack; trade in cotton goods is poor; buyers are wanted with confidence in the future of cotton who will take quantities off the market and carry them until the consumptive demand requires them. That is the function of legitimate speculation. It is always unfortunate to have the price of a staple commodity like cotton or wheat go below a price that is fairly remunerative to the producer, for the effect is to discourage production and make prices unduly high at a later time. And yet it is idle to blame anybody for not buying cotton or wheat when they do not want it or lack confidence in the future price. The value of cotton is involved in the general restoration of industry over the world, so that people can buy cotton cloth. The state of turmoil in many countries, with a general strike threatened in England, factories in Italy in the possession of the wage-earners with the owners barred from entrance, war between Russia and Poland, etc., has not been favorable to the value of cotton.

A well-known Liverpool authority in the cotton trade writes as follows:

> The market is almost completely under the dominion of the unsettled financial, poltical, and labour situation. As these improve or get worse (particularly the coal strike menace) prices will advance or decline. Political conditions on the Continent are unsatisfactory. The expansion in consumption which might naturally be expected, looks unlikely at present at any rate. Poland, Czechoslovakia, and Russia look even less hopeful than last season.

**The Asiatic Trade.**

While this state of social unrest undoubtedly affects speculative purchases, the falling off in the demand for goods is an immediate influence. One of England's large markets is India, and the population of India includes people of very small incomes. By the time 30 to 40 cents per pound has been paid for raw cotton, 25 per cent added for exchange charges on its movement to Liverpool, costs of manufacture into cloth at the present wage scale and high ocean freights are added, the price is almost prohibitive in India. The London Times, discussing part of the subject says:

> The great difficulty of the immediate future is that of prices. It is said by merchant shippers of great experience in the Indian trade that India, broadly speaking, cannot pay Manchester prices for the principal cloths and that these prices, though considerably lower than they were, are still at a range that is beyond the reach of the average user, and that nothing worth speaking of will be done until there is a further and considerable reduction. Some justification for this view is found in the fact that while there is at the present time a fairly active inquiry for all styles, only a small and fitful trade is proceeding, a trade that is insufficient to keep occupied mills producing cloth for India, and that can give no satisfaction either to producers or traders. It must be remem-

**bered that low exchange adds greatly to the cost of British goods in India, and that the price of fabrics ordered now would be very high indeed when they arrived at the bazaars, in most cases five times the pre-war figure.**

### Wool, Rubber, Silk and Hides.

Trading in futures has never been established in wool, so that there is none of the short-selling which is blamed for low prices in cotton, but the wool market is even more stagnant and depressed than the cotton market. The situation is the same—a lack of demand for present consumption and a lack of speculative interest in future needs. It is a time when many people would rather keep their money in hand than invest in products which depend for a market on world trade and world prosperity. Everything may be coming out all right but there are many elements of uncertainty to make traders prefer a conservative course. The present state of turmoil results in high prices for finished goods and relatively low prices for raw materials. In this country the demand for wool has been light and prices have not improved. Producers generally are holding their clips in hopes of a revival in the woolen goods trade. The situation has been hurt sentimentally by the outcome of the government offerings of Australian wool in London last month. The sale was planned to run from September 21 to October 8, but competition has been so light and results so unsatisfactory that it will be closed on the first. Accepted bids were 5 to 7½ per cent lower than at last sale on high-grade wools, 10 to 15 cents off on lower grades, and most of the offerings have not been sold. The pending miners' strike is named as an unfavorable influence.

Rubber is selling at the lowest prices on record, 28 to 30 cents, against 52 to 53 the first of this year. The tire companies have laid off a great many people and are operating at about 50 per cent of capacity.

The silk market has undergone but little change since the heavy decline of last spring, when prices of raw silk fell about 65 per cent from the high point of last winter. The price of raw silk in Japan is now supported by a syndicate which is backed by the government.

Hides are down practically to pre-war prices, and the demand has shown little or no recovery as yet.

### General Trade and Industrial Conditions.

The developments of the month have strengthened the general conviction that the boom period in prices is over, and the country is settling down to conditions more normal than those which prevailed in the last half of 1919 and the early months of 1920. The day of competition among dealers for goods at any price and among employers for laborers at any wage has passed. There is good buying power in the country yet, but the keen edge is off; the feeling is that from now on there will be enough of everything to go around, and that most things will be cheaper rather than dearer—all of which is good reasoning. War conditions do not last always. Imports in the first seven months of this year were $3,481,000,000 against $1,954,000,000 in the same months of last year. The crops are large and the cost of living is lower than last year. The argument for wage increases based on the cost of living works both ways, and the argument of diminished demand for goods and diminished employment is one of the most convincing in the world. It cannot be answered or put aside. It looks everybody in the face until something is done about it.

It was said that as the fall opened the merchants would have to order goods to take care of the fall trade and the coming spring trade, but there has been no rush to do so as yet. Cotton goods business started up rather sharply after Labor Day, but the moment prices stiffened up the demand weakened; then came the slash of 33 1/3 per cent by the Amoskeag Company and cuts all along the line, with the result that prices are more unsettled than before.

In woolen goods the manufacturers of cloth have cut prices 15 to 20 per cent, and important houses in the making-up trades have announced that clothing will be lower. Underwear and knit goods are in an unsettled state, it being claimed that the lower cost of materials do not compensate for recent wage increases. The large manufacturers have made no move for wage-reductions and wish to avoid them. The reductions thus far are coming out of raw materials and manufacturers' profits.

The prospects are that merchants will avoid large commitments, and rely upon stocking up frequently.

### Quantity Production Necessary to Low Prices.

The automobile trade has experienced a falling off of business, and Henry Ford has responded by returning to the pre-war scale of prices, and without any wage reduction. Mr. Ford is one of the great exponents of quantity production. No one has done more than he to demonstrate its economies, so this policy is what might have been expected of him. One feature of modern, capitalistic, industry which its critics do not appreciate is that it is far more interested in steady production than the small proprietor of former times. The latter could lay off his force of workmen and suffer practically no loss but the loss of profits, but a plant representing an investment of millions cannot afford either to be idle or to run at only a part of its capacity. Big industry is in-

terested in getting upon a stable basis as quickly as possible, and that is in the interest of the entire community.

Despite the fact that a large number of wage-earners have been laid off in the tire factories, shoe factories and textile mills, and that local trade has been affected to some extent thereby, the percentage of unemployment the country over is small and not likely to increase. Payments through banks are about on a level with a year ago, and throughout the great west there is entire confidence in the future. The railroads have accomplished a great improvement in efficiency, and handled more freight in the month of August than in any other August on record.

#### A Check to the Downward Movement.

There is good reason to think that in the industries that have been most disturbed the price reductions have gone about as far as they will in the near future. Other industries must expect to contribute their share in the general readjustment, and the more readily they do so the better all around. These price reductions have not yet been reflected in retail prices everywhere, but that, too, is a development on the way and which the enterprising, public-spirited merchant will want to hasten.

There is always difficulty in managing a downward movement. Once confidence in prices is unsettled suspicion is alert. Buyers are wary at any price. It is a mistake, however, to think that prices—at least the average of prices—may slump back to anything like pre-war figures. They have almost done so in some lines, but these prices will probably recover a part of the lost ground. There are too many factors in the situation to permit of complete readjustment at once. It will be a time process. The business community does not like the idea of doing business on a declining market, but that is the prospect for some years to come, and business must plan for it. Where retail prices reflect all the reductions that producers have been obliged to take the cost of living will be materially lower than it was at the high point, but it will still be a long way above the pre-war level. It is not certain that all of the recent reductions can be maintained; this is the season when food is cheapest. A fair start has been made, and a revival of activity in the trades most affected is desirable and probable. We adhere to our opinion that there is too much employment in sight in this country, and too big a crop in the barns, for a prolonged period of depression.

## The Credit Situation.

A feeling of greater ease and confidence has characterized the money market during the past month. Time money on collateral security has been in more liberal supply, and as low as 8 per cent, although the bulk of the business was at 8¼ and 8½. The rate on commercial paper has been steady at 8 per cent with but little doing by the New York City banks. Their loans are closely confined to customers. The call money rate has been below the time rate, and as a rule about 7 per cent.

The fact that the first month of the fall season has been passed and the money for moving the small grain crops has been provided without seriously increasing the strain has contributed to the easier feeling. So far as the grain crops are concerned the worst is probably over, for although only a small portion of the crop has been moved, the conditions are such that the remainder is likely to move slowly and the credit in use will be turned over and over, with perhaps no more in use at any one time than is employed now. As the farmers sell, the banks in the farming districts come into funds with which they liquidate loans at the centers, and thus place the latter in shape to continue advances upon grain.

#### Banking Conditions.

But little change has taken place in the banking situation in the last four months, or, indeed, this year. On June 4, the total earning assets of the twelve Federal Reserve banks was $3,276,626,000; on July 2, the total was $3,271,579,000; on August 6, $3,187,592,000; on September 3, $3,364,936,000; on September 24, $3,309,588,000. The high record for the system since its organization was that of September 3. The big rise in loans last year was after September. From September 19, 1919, to January 2, 1920, the earning assets of the reserve banks increased from $2,349,971,000 to $3,181,808,000, and a corresponding rise of prices took place.

Some people say the increase of loans last year caused the rise of prices and some say it was made necessary by the rise of prices, but it would be a more accurate statement to say that the increase of loans financed and made possible the rise of prices. If credit had not been granted so freely there would have been less competition for goods, materials and labor, less speculation in commodities, and possibly some temporary curtailment of industry while prices were finding their level, just as there has been this year. It is impossible to interrupt a rise of prices without causing some unsettlement in business. When prices are rising people overbuy, anticipate future wants, store up raw materials, hire labor away from each other, build extensions, etc., and when prices begin to fall they abstain from buying, deplete their stocks, make goods only on order and cut down expenses. The former is a more exhilarating state of business than the latter, but sensible people know that prices cannot be always advancing.

The influences making for high prices last year were stronger than now. It was the first year after the war and the markets were under pressure from a flood of business held back during the war. The

buying of clothing was on a great scale and the foreign demand made high prices for foodstuffs. The first move by the Federal Reserve authorities to hold the expansion of credit in check was made in November.

#### The Relations of Credit to Production.

The people who are claiming that the curtailment of credit will interfere with production should take notice that the great rise of loans last year did not increase production. A year ago the makers of goods were not soliciting orders; they had their traveling men at home, and their activities in selling goods were confined to apportioning their products among clamorous buyers. The effect of the abundance of credit was to enable buyers to compete freely with each other for materials and goods. Instead of increasing production it drove up prices. Production can go on as well on one level of prices as another, when conditions are settled. If the banking authorities allow the volume of credit to be adjusted to rising prices, regardless of the relation of credit to reserves, the situation will run away with itself every time, and end in a collapse ruinous to all business.

There are always people who say that the bankers who try to hold inflation in check do not know their business, are illiberal or guided by sinister motives. History repeats itself over and over, but the principle that the volume of credit must be kept in proper relation to banking reserves and that prices should be related to a concrete standard of value has been vindicated always.

#### Effect of Gold Importations.

One explanation of the easier tone in the money market is to be found in a moderate increase of reserves, due to importations of gold from Paris and London. The lawful reserves of the reserve banks on September 3 aggregated $2,117,957,000, and on September 24 they aggregated $2,151,594,000. That is not as large a gain as might be expected, because while we were receiving imports at the front door we were losing at the back door by exports to Japan.

It is expected that more gold will come from Paris in settlement of the Anglo-French loan, and we may continue to get some of the South African gold from London, but it is a mistake to count upon any of these receipts to ease the credit situation. It will be a mistake to allow loans to increase on the strength of such additions, because we are likely to lose all that we get and more, too, and if we allow loans to increase on such an unstable basis we probably will find ourselves compelled later on to reduce them. The payment of the Anglo-French loan is not a recurring event, and in the present state of world trade we are more likely to lose gold than acquire it. Under these conditions it is unsafe to increase credits. The country is taking the only practicable steps toward relief from tight money by lowering prices, and all the ground gained in that direction should be tenaciously held. What goes up must come down, as a rule, and the problem is to get down without disaster.

#### The Process of Deflation.

Despite the complaints made of injury done by credit curtailment the record shows that there has been no reduction of bank loans as yet. The loans of the reserve banks have averaged higher in the last month than in any other month since the banks were established, and the loans of member banks have also been at the top notch. On September 10, the loans of member banks reporting to the Federal Reserve board aggregated $16,923,467,000, against $15,457,705,000 on September 12, 1919, an increase of $1,465,000,000. There has been no increase of production to correspond with this. The effort to increase production by expanding credit in a period of rising prices is precisely like the efforts of a kitten to catch its own tail. The more credit is granted the higher prices will be and greater will be the demand for more loans.

The efforts of the banks up to this time have accomplished no more than the prevention of further expansion. With the decline of prices however it should be possible to accomplish some degree of deflation. There should be no relinquishment of that purpose until the bill-holdings of the reserve banks are far below their present proportions. It cannot be too often repeated that the reserve banks were intended to hold reserve resources for use in emergencies and to meet seasonal requirements. They were not intended to be loaned up to the limit in normal times. It should be the purpose of every banker to reduce his requirements upon them to this basis.

## Foreign Exchanges.

The foreign exchanges nearly all suffered some decline during the month. The changes are shown by the following table:

| | Unit Value | Rate in cents Aug. 26 | Rate in cents Sept. 27 | Change from par | Depreciation |
|---|---|---|---|---|---|
| Canada | 1.00 | .8887 | .9020 | .0980 | 9.80 |
| Germany | .2382 | .0210 | .0163 | .2219 | 93.16 |
| Italy | .1930 | .0467 | .0420 | .1510 | 78.24 |
| Belgium | .1930 | .0755 | .0706 | .1224 | 63.42 |
| France | .1930 | .0706 | .0668 | .1262 | 65.39 |
| England | 4.8665 | 3.59 | 3.4925 | 1.3740 | 28.23 |
| Switzerland | .1930 | .1655 | .1608 | .0322 | 16.68 |
| Holland | .4020 | .3175 | .3108 | .0912 | 22.69 |
| Denmark | .2680 | .1420 | .1375 | .1305 | 48.69 |
| Norway | .2680 | .1420 | .1370 | .1310 | 48.88 |
| Sweden | .2680 | .2030 | .2002 | .0678 | 25.30 |
| Spain | .1930 | .1512 | .1470 | .0460 | 23.83 |
| Argentine | .9648 | .8475 | .8500 | .1148 | 11.90 |
| Japan | .4985 | .5150 | .5140 | *.0155 | 3.109 |

* Premium.

### Canadian Trade and Exchange.

Canadian government figures for the trade of that country with the United States for the year ended with July show imports of $881,147,000 and exports of $537,000,000, with a balance in favor of the United States of $344,000,000. Notwithstanding the adverse exchange rates which prevailed throughout the year, imports from the United States increased $186,289,285 over the preceding year while exports to the United States increased $75,363,570. Here is the explanation of the fact that the Canadian dollar is at a discount of about ten per cent compared with the United States dollar, although the gold parities are the same. It is a problem all the time in Canada how to find means of making payments in the United States. The ordinary trade movement does not suffice. Just now, however, a new factor is developing in the situation, which is the new Canadian crop. For the first time in several years the crop is free to move as the owners please and there is no tariff barrier against the movement of wheat and flour into the United States. The result is that the premium on the United States dollar amounts to a bounty on shipments to this country.

With the wheat markets on the same level, or near it, the Canadian miller can undersell the American miller in this market, unless the latter also grinds Canadian wheat. Under these conditions it would seem that either Canadian wheat must rise or the premium on American exchange must decline. We suggest to business men in the United States who have been accumulating funds in Canada because of the exchange situation, that they investigate the possibility of converting such funds into wheat and sell the latter to millers on this side of the line.

There is, however, still another factor in the situation. Canada's entire foreign trade in the twelve months ended with July consisted of: exports, $1,264,463,537; imports, $1,253,191,735. This is practically a stand-off on the movement of commodities, but Canada is a debtor country on capital account, with a large sum of interest to pay in England and in the United States. On the whole account therefore it must find some other means of making settlement or its exchanges will drag.

Immigration is strong and is bringing in considerable capital; borrowing in one form or another will have to supply the remainder, but it remains to be seen whether the funds will be available in such a way as to sustain the exchanges. The Canadian authorities are hoping for about 500,000 immigrants per year, which at $100 per head would bring in $50,000,000. The record for immigration in Canada was 402,000, in 1913.

### Anglo-French Loan.

Five years have passed since the Anglo-French loan of $500,000,000 was issued. Now that both of the borrowing governments have announced that they have completed their arrangements for payment in full on the 15th of this month, it is pertinent to recall some of the dismal prophecies that were made at the time of issue. A great many people were very sure that both countries were even then hopelessly bankrupt, and that the investors would never see their money again. The war lasted for three years longer, with expenditures constantly increasing, and the two years, nearly, that have passed since the war ended have been almost as expensive as the early years of the war, and yet the lenders are to have their money on the due date, according to promise. Moreover, industrial and financial conditions in both countries have been steadily improving. It is true that much unrest and confusion exists, and that this retards recovery, but in view of what has been accomplished there is reason for confidence rather than pessimism. The peoples of Europe can ruin themselves by destroying the industrial organization if they are determined to do so, but on the other hand there is no reason to doubt that they can work out of their troubles if they set themselves to the task.

### The French Payments.

France is meeting its portion of the joint loan in part by the flotation of a new loan of $100,000,000 in this market and in part by shipping gold; the other arrangements are not publicly known, but presumably from $50,000,000 to $75,000,000 is provided by the sale of American securities acquired from French holders or by the purchase of New York exchange in the London market. We do not hesitate to express our regret that it has been necessary for France to either ship gold or buy exchange at the present very high rates, which require the payment of about three times the sum in francs that in normal times would be necessary to extinguish a similar debt in dollars. Before the war a franc counted approximately as 19.3 cents in making payments in dollars; now it is counting as less than 7 cents. The United States does not get the difference, but France loses it by being obliged to acquire exchange on the United States at this time. Moreover, the efforts of the French government to acquire New York exchange have tended to depress the value of the franc in relation to the dollar, and thus make American goods cost more to French buyers.

And so it may be said of the gold that is shipped that the United States does not need it while France does. This gold should not be allowed to become the basis of new credits, for our task now is to reduce the volume of outstanding credit.

### The British Payments.

Similar comments may be made upon the payment of England's half of the loan. It is unfortunate that England was obliged to pay her share of the loan at this time. The acquisition of New York exchange for this purpose has been in whole or in part responsible for the fall in

the value of the pound sterling from around $4.00 to around $3.50, which makes it just so much harder to sell American products wherever the pound sterling is the standard of value. The gold that has been received from England has gone into our reserves, but the present volume of bank credits is about the same as before it was received. Some of it has been exported, and to that extent it may have been serviceable in preventing a reduction of our reserves at this time, but on the other hand, so intricate are the workings of the international exchanges that the very movement of gold from England to the United States, by disturbing the international equilibrium, may cause a movement of gold from the United States to some other country.

**Loans Should Have Been Renewed.**

The fact is that the best interests of all countries would have been served by a renewal or replacement of the Anglo-French loan for another five-year period. It would have assisted France in her recovery and helped England to extend more credit to continental Europe, and have served both ways in getting the world back to rights. Why didn't we do it? Simply because the number of persons who understood these relationships was too few to enable the thing to be done. The available capital was insufficient. The $100,000,000 borrowed by France costs over 9 per cent interest, and if the offering had been $500,000,000 nobody can say what the rate would have had to be to bring the subscriptions. It would have been an impracticable attempt, and England chose not to enter the market at all. The trouble is that we are not accumulating capital fast enough to play the helpful part in world affairs that we ought to be playing at this time. We ought to be granting credits to Italy, Germany, Austria, Poland, Czecho-Slovakia, and other countries to enable them to buy raw materials for their industries and get back to steady work. As a people we are spending too much on unnecessary things and investing too much in unnecessary and often ill-advised enterprises, like some of the companies in the west referred to elsewhere. A deplorable amount of waste is going on while the world society seems to tremble upon the very brink of dissolution for lack of effective co-operation.

A conference is now in session in Brussels to consider international financial relations, but there is not much that Europe alone can do to improve those relations. The United States, with an industrial capacity nearly equal to that of all the rest of the world put together, is a necessary factor in world reconstruction.

It may be stated in this connection that England is doing much more than the United States through investments on the continent and by supplying raw materials upon arrangements by which it receives payment in finished goods. It is not strange that this should be so, for the business men of England are experienced world traders, are nearer to the situation and have a better knowledge of it, but in view of England's expenditures in the last five years and her own scarcity of capital it is a notable and highly creditable fact. It is a display of enterprise of the most constructive kind.

**Production, Wages and Profits.**

The manner in which international interests and all social interests are allied and are reflected in the exchanges is illustrated by the effect of the British coal strike upon New York exchange. Messrs. S. Montague & Co., London brokers, state in their weekly circular letter that the fact that a strike was imminent caused a demand to spring up in London for New York funds from neighboring countries accustomed to rely upon England for coal, but who wished to make arrangements to buy coal in America. The London Times commented upon the circumstance as follows:

A moment's consideration of what this means to the community at large is seriously worth while. This emergency demand for dollars has inevitably forced down sterling exchange on New York, with the result that, quite apart from all the loss that would be incurred to our industries by a coal stoppage, the mere threat is causing us to pay more pounds sterling for the vast amount of wheat, cotton, and other prime necessaries that we import from America. In other words, as wages can be measured only by their purchasing value, those responsible for the strike movement have already set in motion a force for lessening the value of wages. It is a truism, but one that cannot too often be repeated, that the primary need before the country if the lot of the worker is to be lastingly improved, and not merely met by rises in wages offset by corresponding reductions in their relative purchasing power, is an increase in production. How utterly useless is an increased distribution of currency unattended by increased production (i. e., real wealth) may be seen from present-day events in Russia. It is understood that within Soviet Russia 3,000,000,000 roubles (the former value of the rouble was 50 cents) in notes are printed daily, or a sum equal, at the gold par of exchange, to £2 per head for every man, woman and child in that country. But the inevitable effect has been to drive down the real value of the currency to near vanishing point. For instance, it requires to-day about 15,000 paper roubles to purchase goods in England of the value of £1, and it would require an income of something like 2,000,000 Soviet roubles for the Russian workman to live in moderate comfort.

**The Argentine Exchanges.**

The exchanges have run strongly against Argentina in recent months. The months that are summer here are winter there and the dull season for exports. The movement of grain was very heavy following the harvest last December, but there has been little to ship of late. A considerable amount of low grade wool is on hand, but there is little demand for that kind of wool. The slump in wool and hides is a serious matter to Argentina, although general business is in good condition as a result of the high prices received for all products in recent years.

Several months ago the Argentine government, which had been steadying exchange rates on New York by supplying drafts against a credit which it had in the Federal Reserve Bank here discontinued the practice, with the result that New York exchange in Buenos Aires shot up to a premium of

10 to 20 per cent. The latter part of August the government gave some relief to the situation by resuming the sale of drafts for specific trade payments, reserving the right to examine the books of applicants for first-hand knowledge of the purpose that is served. One shipment of over a million of gold from Buenos Aires has also been reported. These sales appear to have been so restricted as to have met the needs in only a small degree, as New York exchange is still worth about $1.18 at Buenos Aires, against the normal price of about $1.03. This rate is operating to the injury of American trade in that quarter.

The Argentine situation should improve in the early winter, when the new wool clip will be ready for market and the grain crops are harvested, but in view of the fact that last spring's clip of wool in the United States is still mainly in the hands of growers the prospects for selling wool in this country are not bright.

### Other Gold Importations.

The Federal Reserve Bank of New York has given out that it will remove to this country the gold, amounting to $111,000,000 which has been for some time carried in the custody of the Bank of England. This gold is what remains of about $173,000,000 received from the German government about a year ago by the United States Grain Corporation. The original sum has been reduced by sales on behalf of American importers, who took that method of payment where there was gain in doing so. These sales having ceased it has been determined to bring the remainder of the stock to this country. As this gold is already carried as part of the reserves of the reserve system its transfer will make no difference in its resources.

## Borrowing to Pay Old Debts.

We are in receipt of an inquiry from a correspondent as to the merit of a suggestion that the obligations aggregating $10,000,000,000 owing by nations of Europe to the government of the United States be put into the form of bonds of varying maturities and sold to the investing public of this country, thus providing funds with which to reduce the outstanding public debt of the United States government and particularly for the purpose of relieving the banks of their holdings of Liberty Bonds and of loans secured by such bonds.

The inquiry quotes a newspaper editorial as saying that the "recent oversubscription of such new securities as Armour & Co., General Motors and Swiss and French governments" indicates that the proposed offering would be quickly absorbed.

Answering the inquiry we would say that the total of the Armour, General Motors, French and Swiss government flotations referred to was $249,000,000 and the rate of interest at which the notes were floated was approximately 8 per cent. The fact that the market was able to absorb these issues does not prove its ability to take $10,000,000,000.

Unless the foreign bonds were guaranteed by the United States government they could not be sold, even in small offerings, except at interest rates very much higher than are now running to the United States government, which at this time would be a great hardship to the debtor countries.

The proposition offers no relief. It would dip out of the same pool into which it would pour. It proposes the expenditure of a great amount of labor and money to induce the American people to take up a new issue of bonds to pay off an old issue which they now hold. There is no new money in sight anywhere except the current accumulations, and they might be as well applied in payment of the old bonds direct as for the purchase of new ones.

As a matter of fact, current earnings are being so applied. The amount of Liberty Bonds and of loans secured by them in the hands of banks is being reduced, but all of the current earnings of the country cannot be so applied. Such issues as the Armour offerings referred to are necessary to the expansion of the industries. Indeed, the purpose of the Armour issue was to reduce the company's borrowings at banks, and the capital thus provided accomplished as much in liquidating the credit situation as though it had been applied on the government debt.

### Postal Savings Proposals.

The scheme to attract more funds to the postal savings banks by raising the interest rate invites similar comment. There is no gain in attracting money to the postal banks from other savings banks, and no good reason to believe that the amount of savings would be increased. The war savings stamps, which are sold at the post offices, afford a higher rate of interest. The postal savings system has never realized the expectations of its promoters, who prophesied that it would receive billions of hoarded funds in short order. It has been in operation about ten years, and there is no evidence that any large amount of its receipts have come from hoards. At the present rate of return on government bonds the government of course could afford to pay a higher rate of interest at the postal banks, but the present return on government bonds is something temporary; before many years the government will be refunding its debt at a rate probably below that which the postal savings enthusiasts are proposing to pay. The government does not adapt its policies to changed conditions at all readily, as witness the exchange rates maintained by the post office department, and it is doubtful policy for it to change its postal savings policies to suit temporary conditions.

It should be always borne in mind as a fundamental condition of sound and helpful banking that the savings or deposits of each community

should be invested in that community. Here is the weakness in the whole postal savings scheme; there is always the danger that the deposits will be at the disposal of a central board at Washington, who will handle them without any regard for the local interests of the communities to which the funds belong. The local savings banks generally are large lenders of money upon real estate mortgages, and this proposal to divert savings from the local banks to finance the affairs of the Federal government might seriously deplete the funds available for local building operations.

## Great Lakes—St. Lawrence Project.

The International Joint Commission, which was created to assist in dealing with all questions of mutual concern related to the water-ways which form the boundary between the United States and Canada, pursuant to instructions from both governments is conducting a series of hearings in important cities of both countries, to take opinions and gain information upon a project for improving the St. Lawrence river to permit its use by vessels drawing 25 feet or more of water. Sessions will be held in New York City and Boston during this month, and the commercial bodies of these cities will no doubt show an active interest in them.

This project is being energetically pushed by an organization known as the "Great Lakes-St. Lawrence Tidewater Association," of which H. C. Gardner, of Chicago, is president, and Charles P. Craig, of Duluth, is vice-president and executive director. Meetings have been held in several western cities and attended by delegates from the states bordering upon and tributary to the great lakes, and a notable degree of interest has been developed. The delay in moving last year's crops, owing to the congested state of the railroads has greatly stimulated this interest, and it is apparent that in a dozen or more states sentiment is strong for co-operative action by the two governments to create an effective waterway from the chain of lakes to the sea. These states are strong in the national Congress and evidently intend to push the project aggressively. It is a subject therefore which should have careful consideration upon its merits.

### Disadvantages of the Waterway.

The St. Lawrence as a route to the ocean is under some serious handicaps as compared with the routes through the Atlantic ports of this country. It is closed by ice part of the year and when open is subject to fogs which make navigation hazardous and increase insurance charges. Nevertheless, it is probable that if ocean-going ships of 5,000 to 10,000 tons were able to enter the great lakes they would become an important factor in moving the grain exports of the northwest and would develop considerable other traffic.

The Canadian government has spent money freely in the past upon the St. Lawrence route, and is committed to large expenditures in the future. It is now engaged in reconstructing the Welland Canal, to give it a depth of 25 feet, which will cost $75,000,000 to $100,000,000. That work is about one-third done, and it will be of small service unless the St. Lawrence is made navigable at a similar depth. From the foot of Lake Ontario to tidewater at or near Montreal is 181 miles by the river, of which 113 is international boundary. It is said that expenditures required to make the river navigable would be confined to 46 miles of the 181, or a distance of about the length of the Panama Canal. Argument for the feasibility of the project centers largely upon the claim that the improvement of a comparatively short stretch of river will connect large bodies of navigable water.

### Power Possibilities.

The project has another interesting feature, which in the minds of many people is of even greater importance than the waterway. In the international section the river falls 91 feet in 65 miles, of which 48 feet is in 12 miles, and in the Canadian section it falls 130 feet in 70 miles, of which 129 feet is in two stretches of 14 and 8½ miles each. The St. Lawrence has a heavy flow of water, remarkably uniform in volume throughout the year, and it is estimated that improvements which would make the river navigable could be made to produce approximately 4,000,000 horsepower between Lake Ontario and Montreal, the income from which would pay interest upon the entire expenditure. Estimates on the required improvements are from $250,000,000 to $300,000,000.

The power would be easily within serving distance of the upper half of New York state, including the cities along the Erie Canal, and probably could be used advantageously in New York City and in a large part of New England. If the project is as feasible as represented it would effect a very large reduction in coal consumption and probably in the cost of power to the industries. This feature of the proposition obviously is more interesting to New York state than the water-way, but on the other hand the west is chiefly interested in the latter.

There appears to be a feeling in some quarters that New York City and state are likely to oppose the project as inimical to the Erie Canal, but opposition upon this ground would not be justified. In the first place, New York has nothing to fear from any development which benefits the west. Its interests are one with the interests of the whole country. The position of New York is secure; its relations with the west will not be seriously affected by any movement of freight either by way of the St. Lawrence or the Mississippi. It would be short-sighted, and unworthy of the city's position and prestige, to ever take any other view of the relations between this city and the west.

The project is one which as presented seems to have important possibilities. It involves too large an expenditure of money to be undertaken carelessly in these days of high construction costs, but it deserves to have its merits investigated. The War Department engineers have it in hand now, but the interests of New York state are so great that it would seem to be both proper and desirable that the state, through either its official or commercial bodies, should take steps to participate in the inquiry, particularly as to the probable outlay and the amount and cost of the power that might become available.

## Wasteful Promotions.

We have referred heretofore to the speculative flotations of local corporation stocks which have been going on in many parts of the country since the end of the war and even before, and which have had much to do with the present tight credit condition. In the state of Iowa at this time two new companies organized for meat-packing are in the hands of the courts, and investigation into their affairs has revealed scandalous expenditures in promotion.

The Midland Packing Company of Sioux City sold stock amounting in face value to $8,422,300, upon which it appears to have received $6,272,533, and is holding uncollected subscriptions for the balance. The amount received is accounted for as follows:

| | |
|---|---|
| Promotion expenses | $2,561,814 |
| Packing plant | 3,158,897 |
| Note discounts | 362,000 |
| Salaries | 117,035 |
| Organization expenses | 23,000 |
| Traveling, entertaining, etc. | 11,787 |
| Office expense | 38,000 |

In addition to the foregoing there is an operating loss of $205,863.64, which indicates that the company actually reached the stage of producing meats. The other company, known as the "Associated Packing Company," of Des Moines, did not get quite so far, having sold only $3,800,000 of stock, and having gone no farther in construction than to acquire a set of blue prints. Expenditures for promotion have been on a similar scale.

### Selling Packing Stocks to Farmers.

These stocks were sold mainly to farmers, upon the representation that the undertakings were of the nature of co-operative enterprises, and the ground was well prepared by the exaggerated reports that have been in circulation about the profits of the packing industry. The investors could have bought the stocks of the long-established Chicago companies in the open market at less than their book value at the very time they were making their subscriptions to these new concerns.

The farmers bought in blocks frequently of $5,000 and $10,000, and gave their notes which were discounted in neighboring banks, where they will have to be held until they are paid off by the produce of the farms.

Some of the arguments used in selling stock are summarized below from the testimony of a farmer. They told him—

That Frisby (who was to be manager of operations) had been with Swift & Co. for ten years, and that he made $10,000,000 a year for that company.

That Frisby had bought meat for the government.

That the packing company site included a "chain of lakes," and that the company had its own water and its own ice supply.

That the packing company had an icehouse full of ice.

That the company had ten carloads of machinery on the grounds or on the way to Des Moines, all purchased "before the raise."

That two carloads of hogs in 1921 would pay for all of Young's stock ($7,500 worth).

That the company's promotion work cost only 5 per cent, and that out of every $100 worth of stock, $95 or more actually went to the company.

That fifty shares of packing company stock would make more money for Young than his farm.

That there was no stock for sale in packing companies now operating, and that Associated Packing company stock would be worth $200 a share a year from the date of the conversation.

That the icehouse would pay dividends "this year" (1920).

That they didn't want business men from Des Moines in the company—they wanted farmers; and that 98 per cent of the stockholders were farmers.

### A Motor Company.

The Federal Trade Commission has conducted an investigation into the sale of stock for the Pan Motor Company, a Minnesota corporation. It found that the stock was sold to some 54,000 persons, from whom the promoters received the aggregate sum of $4,723,811, and that nearly $1,200,000 was paid to salesmen in commissions. Over $650,000 was retained by the boss promoter for his services as fiscal agent and over $500,000 went for advertising and other expenses, so that nearly one-half the receipts were absorbed in getting the money.

### Promotion Schemes in Disfavor.

The activity of this kind of operations in Nebraska caused the Nebraska Bankers Association at its recent annual convention to adopt the following excellent resolution upon the subject:

"Resolved—That it is the sense of this convention that its members should look with disfavor upon any recognition of the various promotion schemes that are being offered to the public from time to time and we would recommend that the bankers of the state use every means in their power to discourage the purchase of such securities by their customers.

"That this association place itself on record as disapproving and discountenancing the practice of banks in the purchase of notes given for the purchase of promotion stocks and securities and in assisting in the negotiation and sale of these stocks for a consideration, and the issuance of time certificates in payment for notes given therefore and condemn these practices as being unsound banking and contrary to the highest ethics of the profession.

During the first year under the so-called "blue sky" law in Illinois the Secretary of State, Louis L. Emmerson, reports that 40 per cent of the applications made were rejected. The applica-

tions approved involved securities totaling $232,846,935. The rejects totaled $66,917,410. Secretary Emmerson's report covered the period from June 10, 1919, to June 10, 1920. During the year there was approved in all states with blue sky laws securities totaling $355,458,935, of which $211,955,350 was in class "C" securities, based on established income, $143,503,640 in class "D" or speculative securities.

### Fake Promoters and Reformers.

It is perhaps not out of place to say that the readiness of the public to buy the stocks of fake packing companies, upon the representations of persons who have never even taken the trouble to study the balance sheet and earnings statement of a legitimate packing business, is very much like the manner in which it takes to fake reformers in the business, social and political fields. Society is harassed on all sides by these "promoters" of various types who are either out-and-out frauds or do not know what they are talking about. Neither legitimate business nor real social progress are forwarded by their methods.

### Services of the Stock Exchanges.

The number and character of these "wild-cat" flotations over the country in the last two years serves to illustrate the public services rendered by well-governed stock exchanges. The stock exchanges are not responsible for speculation; the flotations that are carried on in unlisted stocks, in lands and all kinds of property, give evidence of that. The stock exchange is a market where securities are bought and sold under certain rules provided for the protection of investors and the convenience and advantage of all concerned.

The New York Stock Exchange is a voluntary association, and, as recited in its constitution, the object is—

> "To furnish exchange rooms and other facilities for the convenient transaction of their business by its members, as brokers to maintain high standards of commercial honor and integrity among its members; and to promote and inculcate just and equitable principles, of trade and business."

Its control is vested in the Governing Committee, composed of forty members, and the President and Treasurer. One-fourth of the Governing Committee, with the President and the Treasurer, is elected annually. From this body the President appoints every year the standing committees, among them the Committee on Stock List, composed of five members. The duties of said Committee are defined by the constitution, as follows:

> "Thirteenth A Committee on Stock List to consist of five members. It shall receive and consider all applications for placing securities upon the list of the Exchange, and make report and recommendation thereon to the Governing Committee, giving full statement concerning organization, capitalization, resources and indebtedness.

The Exchange assumes no responsibility for the representations made to it, but it endeavors to obtain from each corporation whose securities it admits to the trading privilege authentic information as to property, liabilities and earnings which will enable the investor to form his own idea as to the values. It exercises the authority to strike a security from the trading list upon the occasion of any conduct on the part of the issuing corporation which justifies a loss of confidence in its intention to deal frankly with the public. All members of the Exchange are required in their relations with customers to conform to the rules laid down to enforce fair dealing and if shown to have violated such rules are subject to public expulsion. The Exchange will not list the securities of any corporation in the promotion stage. It must be able to show a record of earnings. In short, the selling of securities is reduced to orderly methods with every practicable safeguard against deception. And that is the difference between the distribution of securities through the New York Stock Exchange and distribution through irresponsible salesmen, after the manner of the stocks in the companies above described.

## Foreign Government Bonds.

Two important pieces of international financing have been handled during the month. One is the $100,000,000 French 8% Loan, and the other the $20,000,000 Kingdom of Norway 8% issue which was offered to the public on September 28. Both loans were a great success, subscriptions were received from every part of the country in small amounts.

These issues were offered to yield at least 8% on the Norway Loan and 8.20% on the French Loan and considerably more through the premium redemption features which these loans bear.

Although interest rates are high on these foreign loans the borrowing countries accomplish a great saving over the cost of making payments in this country at the present rates of exchange.

## Discount Rates.

The only change in rates at the Federal Reserve banks in the past month has been an advance to 6 per cent by the Kansas City bank upon loans secured by United States government obligations.